

**ICEST 2021****II International Conference on Economic and Social Trends for Sustainability of Modern Society****FORESTRY LEASE OF THE RUSSIAN FEDERATION**

R. A. Yusupova (a)\*

\* Corresponding author

(a) Ufa State Petroleum Technological University, Ufa, Russia, yusupova.rufina12@yandex.ru

**Abstract**

The article explores the issues of rental and rent in the field of forestry of the Russian Federation. Statistics are given and comparative analysis of the largest producing countries of forest products, including Russia, which showed the underdevelopment of the production of deep forest processing products in our country, despite large swathes of forest areas. As a result, untreated round forest is exported from the country in large quantities, and then deep forest products are imported, the production of which the government cannot obtain from Russian timber companies. The article details the concept of absolute and differential rent. The example of wheat sites shows the occurrence of differential rent 1 and differential rent 2. Land rents in comparison with forest rents were considered in detail, as a result of which a contradiction was revealed that it was impossible to fulfill all rental conditions in forestry according to the Civil Code of the Russian Federation. It was concluded that the state misallocates forest rents, leaving them to timber companies because of a lease agreement that did not provide for the construction of deep processing plants, but only logging. The low economic efficiency of forestry that has developed in Russia requires a revision of the forest management model.

2357-1330 © 2021 Published by European Publisher.

*Keywords:* Forestry, rents, differential rents, deep processing of forest resources, forest management

## **1. Introduction**

A considerable amount of scientific literature and research is devoted to the issues of effective forest management and rental relations in forestry. So, Petrunin (2019) notes that the lease of forest plots did not give the expected effect due to the lack of current data on the quantitative and qualitative characteristics of the forest, transport inaccessibility and low investment attractiveness of the forest industry. As a solution to the problem, Petrunin (2019) proposes the creation of a new economic model and a federal state corporation that would solve all issues related to efficient forest management.

Zulkarnai (2012, 2015) sees the reasons for the lack of deep processing of forests in the institutional and economic (tax) conditions created by the state, which mistakenly provide high profitability in logging. One of the necessary conditions for stimulating entrepreneurs to produce products of deep forest processing is to increase rent from 40-140 rubles per 1 cubic meter. m. Up to 1000 rubles and the creation of forestry regulatory institutions.

Bolshakov et al. (2020) propose the introduction of cross-sectional environmental-economic forest management at the legislative level. Such an innovation will ensure the creation of high-quality forests and high turnover of logging, which in the future will bring economic growth based on renewable raw materials.

## **2. Problem Statement**

Today, Russia is the world leader in forest reserves and the forest is one of the most important export items. Forests occupy almost half of the country. But according to statistics, every year a "round" is exported in large quantities - raw forest, sawn untreated tree trunk, and the products of deep processing of forest wood (pulp, paper, cardboard, etc.) account for a very low percentage of exports. In our study, we will identify the problems of effective forest management and the reasons for the underdevelopment of this industry sector in Russia with sufficient resources.

## **3. Research Questions**

**3.1. What measures should the state take to develop deep processing of forest in the country?**

## **4. Purpose of the Study**

The aim of the study is to assess the impact of rental relations on the forestry of Russia. The objectives for achieving the goal are to synthesize the materials that are obtained from the analysis of forestry activities and the analysis of the budgetary effectiveness of contracts.

## **5. Research Methods**

To solve the set tasks, the study used methods of analysis and synthesis, with the help of which the necessary information was collected to identify the reasons for the underdevelopment of deep forest processing in the country.

Forests of Russia have high economic importance: they are raw materials for the forest and woodworking industries; construction material and fuel. Despite the fact that Russia is the leader in forest area worldwide, in the production and export of products of deep processing of forest resources, it ranks last in the ratings among the largest exporting countries of forest products. According to Table 1, we see that Russia exports the most business round forest, exceeding other countries several times, and exports of products of deep processing of forest resources (Table 2) show the lowest percentage (Yusupova, 2021).

Having high potential and large forest reserves, Russia was unable to obtain from timber companies (hereinafter referred to as TC) the production of products of deep processing of forest resources

**Table 1.** Export of business roundwood for 2019

Indicator	Country				
	Russia	China	USA	Germany	Finland
Business round forest, m <sup>3</sup>	9127000	7521	5918614	7141299	1174095

**Table 2.** List of the largest exporting countries of forest products

Forest products	Russia	USA	Canadian	Germany	Finland
Wood pellets	6 %	25 %	11 %	< 3 %	< 3 %
Paper mass	4 %	11 %	15 %	< 3 %	6 %
Recovered Paper	< 3 %	34 %	4 %	5 %	< 3 %
Paper and cardboard	3 %	10 %	6 %	12 %	9 %

The United States, whose forest area is 304 million hectares, or Germany, which has only 11.4 million hectares of forest, exports deep forest processing products several times higher than Russian values. For comparison, we note that in Russia forests occupy 809.1 million hectares of land. It is also important to note the fact that perestroika forests prevail in Russia, which consist mainly of dry and sick trees that have not been cut down and which lead to increased fire hazard and environmental problems.

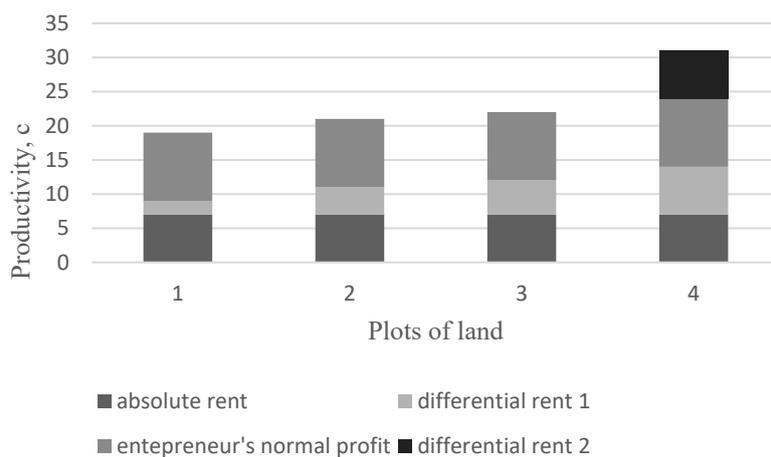
As stated in the Forest Code of the Russian Federation - the forest is completely owned by the state and all relations arising in this area should be based on the payment for the use of forests (Forest Code of the Russian Federation, 2021). In Russia, as in Canada, leases are used in forestry. This means that entrepreneurs rent forest from the state for several years and use it for its intended purpose. In countries with developed deep forest processing, for example, the USA and Finland, there is, in addition to the state, a private form of ownership of the forest. The essence of the private form of ownership of the forest is that the forest is grown and passed on from generation to generation. Forest owners receive income from forest activities and are interested in resuming it, and the state receives revenues from taxes (Shestakovich & Telyasheva, 2017).

Since the state is the owner of the forest in Russia, it must take full payment for the use of the forest so that reserves for the maintenance and financing of forestry remain. Payments to the owner of forest plots for their use are called rents.

Researchers of different times in works addressed the issue of rent. The English economist D. Ricardo explained that rent is the difference between the established market price of land and the expenses of its production, including profit on capital. The entrepreneur, renting a land plot, proposes to organize production for profit. But he cannot keep the profit completely. Some of the entrepreneur must give the owner of the land as a fee for using the land. This part of the profits takes the economic form of rents. K.

Marx, who owns the discovery of the mechanism for the formation of a source of land payment regardless of its natural properties in the field of labor theory of value, allocated absolute rents - income that the land owner receives from all plots, regardless of their fertility (Ricardo, 2021). Tenants pay absolute rents from the worst lands, and on medium and best-fertility plots a differential rent is formed - the income of the owner of the land, arising due to the possession of the best plots.

Let us consider the formation of differential rents using the example of a section with wheat. Imagine that one entrepreneur rents 4 plots of land from the state and grows wheat on them (Figure 1).



**Figure 1.** Example of the occurrence of differential rent

We will assume that the size of an absolute rent determined by an auction is 7 c, the businessman keeps normal profit in number of 10 c. So, the businessman gains income from all sites over 17 c of wheat. Such super profit is called a differential rent 1 and it is taken away to himself by the owner of land, in our case – the state. Thus, the differential rent 1 from the first site, according to the schedule, will make 2 c, from the second – 4 c, from the third site – 5 c, and from the 4th site – 7 c. Then, the businessman to the 4th site introduced fertilizers at the expense of what the productivity grew to 31 c of wheat. In this case we see formation of a differential rent 2 – the income connected with additional capital investment by means of which the fertility of the soil artificially increases. The excess profit received in that case is taken away to itself by that party which introduced fertilizers. In our case this profit will be kept by the businessman who makes 7 c.

Thus, the rent relations well are suitable for the land plots. But in a case with the timberland we see that LPK keep a rent which by right belongs to the state. In detail this subject is opened in I.U. Zulkarnay's researches (Zulkarnai, 2012, 2015).

Besides, in Article 607 of Civil Code of the Russian Federation it is specified that the land plots, the isolated natural objects and property complexes which won't lose the original form in the course of their use are leased. In a case with the land plots they will be returned to the owner, without having lost the natural properties. Having leased the wood lot, the businessman won't be able to return it to the state in original form as the wood before the termination of term of the contract won't manage to grow to the initial sizes. Or people have to live more than hundred years that conditions which are specified in the Civil Code

of the Russian Federation were met. It is obvious that it is impossible as at people the efficient age is limited. Thus, we see a contradiction and non-compliance with the conditions specified in the Civil Code of the Russian Federation (Civil Code of the Russian Federation, 1994).

It is also worth paying attention to Article 79 of the Forest Code of the Russian Federation, which states that the auction is considered unsuccessful if there are less than two participants. However, the sole bidder must conclude a sales contract or a forest lease at the minimum initial price. The content of this article leads to net losses of forest income by the state due to the provision of forest plots at minimum prices.

So, according to Rosleskhoz, income to the federal budget for the use of forests in 2019 amounted to 36.5 billion rubles, and federal budget expenditures on forestry amounted to almost 43 billion rubles (Economics and finance, 2021). Thus, for the federal budget, forestry is unprofitable. There are several reasons for this.

Firstly, the Forest Code of the Russian Federation of 2006 has many shortcomings, due to which the country does not develop deep processing of forest resources.

Secondly, a large number of priority investment projects in the field of forest development with a decreasing coefficient of 0.5. LPCs that received forest plots at a low price are not in a hurry to produce deep forest processing products, since such production requires impressive financial investments. By selling round unprocessed forest, companies make huge profits, leaving themselves forest rents (Griyaev, 2012).

Thirdly, there is insufficient control and audit activity on the part of the State (Bairushina, 2018).

Making a general conclusion about the state of the forest industry in Russia, we note that since the adoption of the Forest Code in 2006 and the existence of rental relations, we have seen a deterioration in the quality of forests, which leads to a decrease in economic and environmental potential. Leases in forestry did not bring the desired result either for the country or for society as a whole.

## **6. Findings**

Having analyzed rental relations in forestry, we identified the reasons why the production of deep forest processing products is extremely low in the country.

Firstly, timber companies pay an extremely low price for using the forest, while appropriating forest rents that should go to the benefit of society and the state. Companies are not interested in deep forest processing.

Secondly, due to the lack of a competition for forest ownership, a market price cannot be determined, and forest plots go to companies for a very low fee.

Thirdly, because the lease is only of a logging nature, this prevents timber companies from launching the process of producing deep forest products.

Thus, from the analysis we found that for the state and society such transactions in forestry can be called ineffective.

An exit out of this situation can be offered by the state selling forest "to the root" at current market prices, which will give an incentive to LPC to switch to deep processing of forest for profit at the expense of high value added.

How will refusing to lease forest plots and turning the state's forest sale "to the root" encourage timber companies to start producing deep forest processing products?

Local entrepreneurs, residents of forest areas of the country who are engaged in forest business (making boards, lumber, etc.) and purchasing forest at a market price, for example, through an auction from timber industry enterprises for a thousand rubles 1 cubic meter. In forests, further forced to process wood for good profit. They do not have such privileges in prices as TC and local entrepreneurs, creating additional jobs for the population, manufacture and sell high-value-added forest products. At the same time, revenues to the federal budget are increased due to tax revenues

And in the case of timber companies, we see the opposite picture: renting a forest from the state for a minimum price and then selling it at market prices, the profitability from only logging activities from them is about 230%. Obviously, if we move to deep forest processing, profitability will fall, since the process of transition to the production of deep forest processing products requires billions of dollars of investment (Zulkarnai, 2012).

If the government begins to sell forest to timber companies "to the root," then companies will have an incentive to deep processing of forest to maximize profits, and the state budget will increase due to tax revenues.

## 7. Conclusion

The state, as the owner of the forest fund, is interested in creating conditions under which the development of forests would be effective and multi-purpose, as this would allow receiving additional income from each forest area. Understanding the weaknesses that hinder the development of deep forest processing will provide an opportunity to develop and implement the necessary measures that would stimulate timber companies to produce high-value-added goods (Krasnoselskaya et al., 2019).

The proposed measure is the sale of forest "to the root," far from the only one that could regulate relations between timber companies and the state. Measures to improve forest management and the introduction of effective tools in the forest industry will be discussed in subsequent publications.

## References

- Bairushina, F. F. (2018). On monitoring socio-economic development in order to ensure the economic security of the region. *Proceedings of the scientific conference, Sumgait. Azerbaijan*, 234-237.
- Bolshakov, N. M., Zhideleva, V. V., Guryeva, L. A., & Rausch, E. A. (2020). Ecological-Economic Rent: A transversal approach to the problems of economic growth (to the concept of a new edition of the Forest Code of the Russian Federation). *Bulletin KRAZ iU. Series: Theory and Practice of Management*, 25, 50-60.
- Civil Code of the Russian Federation. (1994). Russian Federation.
- Economics and finance. (2021, March, 24). In *Federal forestry agency*. [http://rosleshoz.gov.ru/activity/economy\\_and\\_finance/stat](http://rosleshoz.gov.ru/activity/economy_and_finance/stat)
- Forest Code of the Russian Federation. (2021, March, 20). In *Consultant.ru*. [http://www.consultant.ru/document/cons\\_doc\\_LAW\\_64299/](http://www.consultant.ru/document/cons_doc_LAW_64299/)
- Griyaev, M. D. (2012). Problems of forest management in the Russian Federation. *Forest Herald*, 6, 181-187.

- Krasnoselskaya, D. Kh., Khamzina, D. R., Golovixnin, S. M., Nogovitsina, O. V., Sarapulova, A. V., & Arishina, E. S. (2019). Determination of capital accumulation in region using benchmarking tool. *Espacios*, 35, 18-24.
- Petrinin, N. A. (2019). Development of rental relations in the forest sector of the economy of the Russian Federation and their impact on the profitability of the forest industry. *Works of the St. Petersburg Forestry Research Institute*, 1, 68-80.
- Ricardo, D. (2021, March 23). In *Wikipedia*. [https://ru.wikipedia.org/wiki/Ricardo\\_David](https://ru.wikipedia.org/wiki/Ricardo_David)
- Shestakovich, A. G., & Telyasheva, E. A. (2017). Intermediate Forestry Reform Institutions. *Bulletin of Bashkir University*, 4, 1042-1046.
- Yusupova, R. A. (2021). Rent in the state regulation of forestry of the Republic of Bashkortostan and the Russian Federation. *Economics and management: scientific and practical journal*, 1, 106-111.
- Zulkarnai, I. U. (2012). Reasons for the lack of deep processing of forests in the Republic of Bashkortostan. *Bulletin of the Bashkir Institute of Social Technologies*, 2, 64-73.
- Zulkarnai, I. U. (2015). Problems of forestry development in the Republic of Bashkortostan in the context of the all-Russian problems of the industry. *Bulletin of the Bashkir Institute of Social Technologies*, 4, 59-64.